Crisis Command: Strategies for Managing Corporate Crises

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Chapter 1: Introduction

CRISES AFFECT individuals, families, communities, organisations and nations. They can be caused by natural forces such as fires, storms, cyclones and earthquakes, or many aspects of human and organisational behaviour, including a lack of foresight and planning, as well as unexpected combinations of factors.

In this report we will focus on crises that can occur in organisations and which threaten their operation and reputation, unless prevented by prior planning or ameliorated by rapid suitable response to a crisis that has occurred. We will also take into account human factors in examining how people respond in crisis situations.

What constitutes a crisis?
Definitions and descriptions of crises vary according to the type of crisis, and the reach and complexity of the consequences caused by the crisis. At the more complex end is the definition of crisis as: “An organisationally-based disaster which causes extensive damage and social disruption, involves multiple stakeholders, and unfolds through complex technological, organisational and social processes,” to which Preble added, “[they usually contain] some element of surprise, the need for a quick response, the threat to high-priority goals, and the stress brought on by any of the above”.2

These perceptions of a crisis acknowledge the human influences in “social disruption” and “multiple stakeholders”, and recognise the interaction of social processes and organisational and technical processes, such as computer network and electrical system failures.

Other definitions are simpler. In the context of a disaster, for example, the UK Home Office describes it as: “… Any unwanted significant incident that threatens personnel, buildings or the operational structure of an organisation which requires special measures to be taken to restore things back to normal.”3 And the Institute for Crisis Management describes a business crisis as: “Any problem or disruption that triggers negative stakeholder reactions that could impact the organization’s financial strength and ability to do what it does.”4

The Swedish Emergency Management Agency suggests the main components of the crisis concept are an event which:

- Is unexpected in nature;
- Poses a threat or challenge;
- Is potentially hazardous;
- Requires immediate, rapid action;
- Management has limited control over; and
- May have unpredictable effects and consequences.5

Other definitions include aspects such as interference with normal business operations, damage to the organisation’s positive public image, reputation and financial damage, negative effects on products, goods and services, challenges to the public’s sense of safety, values or appropriateness, a
loss of control, and a trigger for negative stakeholder reactions.

A crisis is not something that can be resolved within set procedures and with minimal disruption to normal business activities, for example, a customer or a member of staff involved in an incident like falling down a set of stairs.

A crisis is an event, sudden or developing that without effective intervention – both internally and externally – would result in the organisation imploding. A crisis, no matter what form it takes, creates what is effectively a black hole, which quickly consumes many of the organisation’s resources, thus placing the organisation at risk. In many cases, the organisation needs outside help to survive. During a crisis, decision making can become erratic and reactionary, and careers can be on the line, even if the organisation pulls through during the succeeding hours, days or even weeks of the crisis. Fast and appropriate reaction to solving a crisis is crucial.

While crises cannot be avoided or prevented entirely, crisis managers can handle them more effectively if appropriate strategies and tactics are taken. And in this report, we aim to guide readers through strategies and tactics to be taken, to avoid a complete catastrophe.

An opportunity in a crisis?
It was once thought that crises had a silver lining or were even a ‘good thing’ in that they provided an opportunity for an organisation, having learned from its mistakes, to portray effective management and leadership and emerge in a better position than prior to the disaster.

Some justification of this view came from popular crisis literature. For example, the Chinese view of crisis is more hopeful than the western view, as the word ‘crisis’ written in Chinese is composed of two characters: one representing danger and the other representing opportunity (‘Weiji’).

However, in refuting this view, Victor Mair, professor of Chinese language and literature at the University of Pennsylvania said that: “While it is true that weiji does indeed mean ‘crisis’ and that the wei syllable of weiji does convey the notion of ‘danger’, the ji syllable of weiji most definitely does not signify ‘opportunity’. The ji of weiji, in fact, means something like ‘incipient moment’ (when something begins or changes). Thus, a weiji is, indeed a genuine crisis, a dangerous moment, a time when things start to go awry. A weiji indicates a perilous situation when one should be especially wary.”

Thus, the Chinese view of crisis appears to be as negative as it is in English-speaking countries. However, the meaning of Chinese syllables changes depending on whether they are used alone or in combination with other syllables. Mair provides an example: “The graph for ji by itself indicates ‘quick-wittedness’, ‘resourcefulness’, ‘machine’ and ‘device’. And in combination with the word ‘hui’ (occasion) creates the Mandarin word for ‘opportunity’ (jihuì); but by itself, ‘ji’ does not mean ‘opportunity’.”

This lesson in translation is salutary. Opportunities may come when people choose the occasion to exercise “quick-wittedness” and “resourcefulness”, and have a “machine” or “device” (such as a crisis plan); but they are not an inherent part of the meaning of crisis in Chinese.

Crisis communication in any country should focus on having specific actions, such as having a comprehensive crisis plan and encouraging skills as resourcefulness and quick thinking to lessen the impact of crises. This approach is favoured to considering a crisis as an opportunity to
learn from one’s mistakes (in our view an expensive way to learn).

Crisis learning

Indeed, “crisis learning” as t’Hart, Heyse and Boin indicate, is a paradox. “[I]n the politics of blaming, information is tailored to be ammunition. Data is not collected and analysed in order to improve future efforts aimed at prevention and preparedness. Instead, data is selected and moulded to construct winning arguments in a battle for political-bureaucratic survival.”

Sometimes, therefore, opportunities for improvement or learning are downplayed, for to admit them is to accept some blame for the crisis happening in the first place. If, for example, tamper-evident packaging had been adopted when it first became available, then tampering with packaging of drugs available over the counter would have been less of a problem.

However, it is clear that a crisis does provide an opportunity to take advantage of knowledge gained about contributing factors in a crisis. This means that improvements can be made to processes and practices, in order to prevent and manage future crises. After the Arnott’s biscuit manufacturer and Herron Pharmaceuticals extortion crises in 1996 and 2000, both manufacturers emerged from the threat with tamper-evident packaging providing a safer product for consumers. After reports that residents in the 7 February 2009 Australian bushfire were confused about the likely path of the fire and whether to evacuate their homes, when extreme fire danger threatened again in March 2009, Victoria Police sent 3m text messages to residents’ mobile phones to try to avert a similar disaster.

The world of crisis communication today faces the compounding complexities of changing media that allow greater immediacy and expectations of faster reportable actions, as well as changing social expectations on lower acceptable degrees of risk and lower tolerance for mistakes that lead to crises.

Crisis in business organisations appear to be on the increase. In part, some of these crises are due to the increasing complexity of business and the interconnectivity of world events, as well as a lack of regulation of trade and monetary policy.

On the other hand, increased awareness of potential crises has uncovered some that lay undetected. Increasing scrutiny of corporate behaviour led to the discovery of the crisis involving US energy giant Enron in 2001. Although named as one of the US’s “most innovative companies” for six years, it was eventually brought down by financial mismanagement on a grand scale.

People also seem to be less loyal to corporations, particularly during times of recession when lay-offs are prominent. There are heightened expectations of good corporate behaviour by stakeholders and society. Whistleblowing can be encouraged as a source of early detection of unethical corporate behaviours and other potential sources of crisis. Internal and well-publicised whistleblowing procedures are claimed to be a sound way for companies to prevent financial and reputational damage.

Crisis management needs to become a part of both organisational and private life, rather than a response to a defined event. An essential part of this management is the creation of a plan to deal with crises that could potentially arise. There is perhaps less tolerance of a crisis in a world where people are accustomed to a much higher level of control over their own lives. People are more accustomed to doing what they can to minimise risk than in previous generations, when links between their
own behaviour and consequences in their 
relationships, health and wealth, were not 
so clearly articulated in widely available and 
ever present media.

Costs of a crisis
Corporate crises have proven costly. For 
example, an Australian study by Coleman16 
of 55 corporate crisis events in the 10 years 
from 1990-2000 found that 50 per cent 
involved crises that arose out of the normal 
operations of the corporation; and costs 
typically exceeded AUS$10m and 25 per 
cent of crises cost more than AUS$100 m. 
In addition, 25 per cent of the organisations 
involved in crises did not survive.

Estimated costs of some individual crisis 
events show the extent of some losses and a 
grim picture of the effects of a crisis. Table 1 
illustrates some of the typical losses suffered 
by companies as a result of a crisis.

Power of stakeholders and 
public expectations
Stakeholders can be defined generally as 
anyone who has a stake in the organisation, 
or an individual or group with interests in 
the continued delivery of the organisation’s 
intended outcomes or the viability of the 
organisation. Without stakeholder support, 
the organisation could not continue to exist. 
Within a company, the internal stakeholders 
are the employees, managers and owners. 
The external stakeholders would be the 
suppliers, society, community, government, 
creditors, shareholders and customers. 
Increasingly, stakeholders are seeking to 
exert power.

Corporations, as well as government 
organisations are not separate from society – 
they are part of the community. Stakeholders, 
as well as rivals and opponents of the 
organisation, are becoming more influential, 
with stronger voices through the greater 
availability of interactive media.

Stakeholders are technology-savvy in 
the use of lobbying tactics to achieve what 
they want. One person with web access 
can become a micro-activist and can enjoy 
as powerful a presence online as any 
corporation. Moreover, micro-activists who 
are intent on damaging corporate reputations 
with online rumours can do so anonymously.

Anonymous posts can be made to 
discussion forums, bulletin boards and 
blogs on the web, and in the US this is 
largely protected by the First Amendment of 
the Constitution. In Australia, for example, 
comments about issues can be posted 
anonymously on most media websites, such 
as the Courier Mail in Queensland. Although 
all contact with the web is traceable through 
individual computer Internet Protocol (IP) 
addresses, much like a fingerprint, this is of

<table>
<thead>
<tr>
<th>Company financial losses from crises</th>
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<tbody>
<tr>
<td>Longford gas explosion (Victoria 1998)</td>
<td>AUS$13bn</td>
</tr>
<tr>
<td>Queensland oil spill (2009)</td>
<td>AUS$2-3m18</td>
</tr>
<tr>
<td>Arnott’s biscuit extortion (Queensland 1996)</td>
<td>AUS$10m19</td>
</tr>
<tr>
<td>Mobile oil fuel contamination (Australia 2000)</td>
<td>$50m20</td>
</tr>
<tr>
<td>Garibaldi Smallgoods food contamination (Adelaide 1995)</td>
<td>The company closed down due to the crisis.21</td>
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Table 1: Company losses made from crises
little help to organisations trying to trace the source of anonymous rumours, because they may not have the legal ability to source IP addresses from websites.

Websites and e-mail are a major source of negative news. A 2004 US survey found that websites were equal to radio and word-of-mouth as a source of negative news, while e-mail accounted for 18 per cent of negative news. The survey found that financial fraud and health issues were the most common topics in negative e-mails. When people read the comments, 44 per cent continued to search online to validate the information. A total of 71 per cent of UK web surfers forward negative e-mails.

Considering the needs and reactions of stakeholders is central to good planning for possible crises. Stakeholder engagement is a commitment to having an outside-in, inclusive organisation that recognises that being part of society has responsibilities. Communicating with stakeholders is also critical, in order to build a stock of goodwill. If their information and communication needs are not met, alienated stakeholders have the power to become passive, or even actively work against the organisation, therefore increasing the impact and length of a crisis.

Corporate social responsibility (CSR)
CSR or making contributions to the community, is a way of building a goodwill reservoir. However, CSR needs to be part of a corporation’s culture well before a crisis event. During or immediately after a crisis, CSR can be seen as attempting to buy forgiveness if something is going badly wrong.

Goodwill comes with trust that is built up over time. A reputation for transparency, ethical business standards and a willingness to communicate with the outside world are essential to building trust. During a crisis, stakeholders will judge the organisation on past relationships and willingness to communicate, as well as by current responses to the crisis.

While it is acknowledged that stakeholder involvement is effective only when the communication goes both ways – each party listening and acting on what the other says or does – it is also noted that an open communication process holds inherent dangers. Upset stakeholders can swamp meetings, blogs, and feedback platforms on corporate and media websites, and set up rogue websites, which in themselves, can become news stories for a 24/7 news-hungry media. There is a crucial need to monitor these media and provide early answers to stakeholder concerns.

The move towards crisis preparation
The World Economic Forum 2009 suggests that innovative strategies are crucial to help businesses and individuals focus on the long term and to move beyond ‘it cannot happen to us’ to ‘what if it occurs?’ A mentality better suited to the current climate of interdependent global risks. Such a focus on crisis preparation needs to begin at the local level.

In this century about 75 per cent of organisations are meeting the challenge of preparing for a crisis. In 2005, a survey of 126 public relations practitioners in the US found that 75 per cent of their employers had a written crisis communication plan. Two years later, another US national survey found that most companies have a crisis spokesperson, 71 per cent a crisis management team and 79 per cent a plan.

In addition in 2007, the ‘Trends in Business Continuity and Crisis Communication Survey’ by the communications software provider Varoli Corporation, examined 98 companies across 16 industries. It reported that 74 per cent of organisations found...
that their customers were increasingly interested in the organisation’s business continuity plans, “which may indicate that their customers have a direct interest in their suppliers’ resilience and ability to operate when faced with a crisis”.26 This change was noted again in 2008, when a survey of 700 organisations found 75 per cent of companies had formal crisis plans that included either automated emergency notification procedures.27 However, of those organisations with a plan, fewer than 30 per cent tested the plan with either a field or desk-top exercise.28

All plans need to be tested. A plan which is not periodically tested to find gaps or outdated information can lead to a false sense of crisis immunity and be an inadequate tool when a crisis does occur.

Features of crises
Crisis events can be placed into categories. Most corporate crises emerge from the failure to effectively manage issues.

Instant crises
These include earthquakes, fires, accidents and extreme weather events. Cyclone ‘Tracy’ killed 71 people as it passed over Darwin, Australia on Christmas Day in 1974. A total of 650 people were injured, 41,000 made homeless and the total cost exceeded AUS$830m.30

Emerging crises
These result in an organisation’s failure to effectively deal with issues. A good illustration of this type of crisis is in 1995, when a four-year old girl died and more than 100 people suffered e.coli food contamination from consuming products manufactured by Garibaldi Smallgoods in South Australia. A 138-page coroner’s report found that the manufacturing process – and the way the South Australian authorities handled the incident – were seriously deficient.31

Reputational crises
This is where, in the event of a crisis, the image/brand/history of an organisation is at stake. An example to illustrate this...
type of crisis is when the New Zealand power company Mercury Energy suffered a considerable public, media and political attack on its reputation after it cut off the power to the home of an ill woman who had not paid a NZ$168 bill. The woman, who relied on an oxygen machine, died two hours later.32 (See Case study ‘Mercury Energy’s 72-hour media meltdown in Chapter 4.)

Unusual crises
A crisis can arise from an unusual event or source. For example, two New Zealand schoolgirls discovered that the popular health drink Ribena contained almost no Vitamin C during a school assignment, despite marketing claims to the contrary. The students’ science experiments resulted in the manufacturer GlaxoSmithKline being fined NZ$163,000 in 2007 for breaching fair trading laws.33 Although not strictly a crisis, it did harm the corporation’s reputation.

When an organisation is unprepared, it lacks information, time and resources when managing a crisis. These deficits lead to a lack of control and potentially enhance the negative fallout from the crisis. A key aim of effective crisis management is regaining control. Some key areas where control needs to be regained lie in:

- The supply of reliable, timely and accurate information;
- The supply of resources; and
- The stabilisation or replacement of essential personnel.

A framework for crisis management
In today’s crisis-aware environment, organisations can adopt the widely-accepted disaster management framework PPRR [Prevention, Preparedness, Response and Recovery]. In a corporate setting, the framework can be applied as follows.

Prevention
A pre-crisis audit should be undertaken to identify crisis vulnerabilities across the organisation and to put in place a plan for an effective issues identification, prioritisation and resolution programme. In this phase, organisations can adopt a ‘crisis radar’ approach, to identify and monitor emerging problems.

The first signals of an impending crisis may be difficult to identify. A tell-tale clipping from a media monitoring company, an accident report, a complaint from a stakeholder or customer, a report of a poor procedure, numerous complaints to a call centre on the same topic, or online feedback and criticism contained in a blog, are danger signals often overlooked and the crisis impact takes everyone by surprise. Organisations must fine-tune their radar to pick up on the potential issues that may develop into a crisis.

Preparation
Prepare the organisation for a crisis. This involves the identification and development of a crisis management team, which usually consists of senior executives across the organisation. The team should be trained in decision making, communication and leadership. Resources such as a command centre need to be identified and made available 24/7. A crisis response plan should be developed by the team and, importantly, tested at regular intervals.

Response
This is where the most critical phase begins – activating the crisis team and getting into action in the designated ‘war room’. It is within the first 48 hours that perceptions are
formed by stakeholders on whether or not the organisation can survive – and at what cost. Although the focus is on resolving the crisis, other business operations should not be overlooked. A key focus at this stage is shielding corporate reputation.

Recovery
Almost as soon as the crisis hits, a well prepared organisation should start to plan its recovery with one goal in mind – to return in a stronger position than before the crisis, such as a gain in market share by perceptions of well-managed crises events.34

The recovery phase includes important elements such as image management, market share recovery, people management and support from, and improved communications with, relevant stakeholders and the public/media. Lessons are learned in every crisis. They need to be captured in the recovery period. It also provides the opportunity to review communication processes, sharpen management structures and devise ways of returning the organisation in a better position than prior to the crisis – the ultimate goal of effective crisis management.

In nearly every crisis – often within the first week soon after the initial dust settles – the blame phase takes over. In organisations with a blame culture, a scapegoat is usually found. As a result, instead of learning from mistakes that have been made in causing a crisis, an organisation may find itself lacking much valuable organisational history and experience after it sacks executives thought to be to blame. Not only did these people know what happened during the crisis, they mostly became aware of faulty systems and processes that had a part to play in the crisis, and which, if not remedied, would have a high likelihood of causing another crisis in the future.

What are the lessons learned from a crisis? Any organisation that has survived a crisis should be in a better position to face another such situation. Crises should help shape improved organisational structures (importantly, without losing experienced people), help an organisation deal with underlying, latent problem issues, and increase teamwork and loyalty in staff. To capture these important crisis elements, all organisations must conduct detailed, unbiased reviews of the crisis and its management.

The future of crises
A crisis-free future is not guaranteed, despite improvements in crisis recognition and training of crisis managers and crisis communicators. Renowned author Quarantelli35 considers that populations, organisations and governments need to develop resiliency in the face of inevitable crises. He suggests that future crises will be increasingly media driven, arise from technological developments, be transnational in impact, and reflect the weakening ability of nation states to cope in isolation from one another. Thus, Quarantelli points to the importance of social consensus, cooperation and political and managerial will in decisions about what can be done, who is responsible and who will provide the necessary resources in future crises that are likely to cross national boundaries.

He sees positive signs in the establishment of a Global Disaster Information Network (GDIN). Such initiatives could be developed in other areas. It is clear that single governments of nation states will be ineffective in dealing with the present widespread financial crisis on their own, and that a greater spirit of cooperation and coordination among governments will be necessary both to
manage the crisis and to come up with feasible plans to prevent or minimise such crises in the future. This will entail the use of what Quarantelli calls social means and mechanisms, and what others might call effective communication. In order for these social means and mechanisms to work effectively, they will also need to be applied at a local level in communities, states and within nations.

**Learning leadership**
At times, awareness painfully gained can change concepts of leadership. George Orwell tells how actions can sometimes lead to awareness of the leadership role’s complexity. As a young policeman in the outposts of the British Empire in Burma, Orwell was asked to do something about an elephant that had killed an Indian. Although he realised that he ought not to have shot the elephant, which was “comparable to destroying a huge and costly piece of machinery”, he recounts how he did so because he felt that, in the situation with a huge crowd watching him, there was nothing else that he could do without looking silly: “I had to shoot the elephant. I had committed myself to doing it when I sent for the rifle. A sahib has got to act like a sahib; he has got to appear resolute, to know his own mind and do definite things. To come all that way, rifle in hand, with two thousand people marching at my heels, and then to trail feebly away, having done nothing – no, that was impossible. The crowd would laugh at me. And my whole life, every white man’s life in the East, was one long struggle not to be laughed at.”

Reflecting on his experience, Orwell could see that lack of preparation and inexperience could lead to the shooting of a valuable elephant. Orwell’s story highlights the absurdity of behaviours that were undertaken in the name of maintaining an “image” of leadership in an empire so thinly spread, that it gave a raw, inexperienced youth authority over thousands. It further illustrates that decisiveness is often valued over wisdom, and that the fear of being embarrassed and being laughed at ranks high in situations where those who make decisions are not fully prepared. This fear of embarrassment can cause leaders to be defensive and cling to their first decision in the face of evidence that a different tactic would be more effective.

**Crisis command – collaboration and conflict resolution**
In this report we use the idea of command to mean a command of techniques that encourage collaboration and cooperation. This leaves people feeling that their collaboration and cooperation at a time of crisis was, despite the seriousness of the situation, a high point in their lives.

A critical issue in most crisis situations is how to encourage people to perform well under stress.

Another issue in times of crises is personal and ideological differences, which can become highlighted and cause dysfunctionality. The task is not so much to command unquestioning obedience, but to contrive cooperation and collaboration between disparate parties, many of whom have very different needs, interests and backgrounds.

The normal skills of conflict resolution are more important in a situation under pressure. Accordingly, one of the skills of the crisis leader is to encourage people to move beyond their instinctive positions by providing them with a forum for describing their needs, what they want and why they want it, and a way of reaching decisions that are informed and rational.
Q&A: views from the frontline

Prakash Mirchandani, crisis management consultant, Media Gurus.

What is the most difficult crisis you have dealt with?
PM: The most difficult crisis involved a major organisation. The crisis had the potential to bring down the Government. The challenges involved in the crisis were in five areas:

- An internal team that worked actively against the organisational executive;
- A divided senior executive;
- Confusing information about the relevant facts;
- The crisis managers were too involved in other day-to-day affairs of the organisation; and
- There was very little information about what outside stakeholders were thinking or planning.

How was the crisis resolved?
PM: A member of the senior executive went on the record to reveal pertinent facts. The rules regarding flow of information within the organisation were drastically revised. A senior crisis manager was appointed for future crises. There was a change of CEO.

What were the lessons learned?
PM: There must be a swift flow of information at all levels in the organisation. Importantly, there must be cohesion amongst the crisis management team while a ‘bunker mentality’ has to be abandoned at all costs. The information flow to stakeholders is critical. It must be based on the need for strong contacts with outside stakeholders, to ensure that a flow of information to the crisis management team is maintained. As far as the information itself is concerned, this needs to be clear, transparent and swiftly conveyed by spokespeople who are confident and well-briefed.

Prakash Mirchandani is a highly-regarded Australian-based international consultant in strategic crisis management, specialising in media and reputation management. He has been a media executive at the BBC in the UK and ABC in Australia. His clients range from senior levels of the Australian Defence Force, to executives appearing before Senate Committees. Prakash has advised corporate clients on responding to complex high-threat environments. He has presented at numerous national conferences on crisis and media management.

For more information on his consultancy, visit: http://www.mediagurus.com.au

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